



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

February 10, 1994

THE DIRECTOR

M-94-14

MEMORANDUM FOR THE HEADS OF DEPARTMENTS AND AGENCIES

FROM: Leon E. Panetta  
Director

SUBJECT: 1994 Discount Rates for OMB Circular No. A-94

On October 29, 1992, OMB issued a revision to OMB Circular No. A-94, "Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs." The revision established new discount rate guidelines for use in benefit-cost and other types of economic analysis.

The revised Circular specifies certain discount rates that will be updated annually when the interest rate and inflation assumptions in the budget are changed. These discount rates are found in Appendix C of the revised Circular. The attachment to this memorandum is an update of Appendix C. It provides discount rates that will be in effect for the period March, 1994, through February, 1995.

The rates presented in Appendix C do not apply to regulatory analysis. They are to be used for lease-purchase and cost-effectiveness analysis, as specified in the Circular.

Attachment

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## Appendix C: Discount Factors

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## APPENDIX C

DISCOUNT RATES FOR COST-EFFECTIVENESS, LEASE PURCHASE,  
AND RELATED ANALYSES

**Effective Dates.** This appendix is updated annually around the time of the President's budget submission to Congress. This version of the appendix is valid through the end of February, 1995. Updates of this appendix will be available upon request from the Office of Economic Policy in OMB (202-395-3381). Copies of the appendix and the Circular may also be obtained from the OMB Publications Office (202-395-7332).

**Nominal Discount Rates.** Nominal interest rates based on the economic assumptions from the budget are presented in the table below. These nominal rates are to be used for discounting nominal flows, as in lease-purchase analysis.

**Nominal Interest Rates on Treasury Notes and Bonds  
of Specified Maturities (in percent)**

<u>3-Year</u>	<u>5-Year</u>	<u>7-Year</u>	<u>10-Year</u>	<u>30-Year</u>
5.0	5.3	5.5	5.7	5.8

Analyses of programs with terms different from those presented above may use a linear interpolation. For example, a four-year project can be evaluated with a rate equal to the average of the three-year and five-year rates. Programs with durations longer than 30 years may use the 30-year interest rate.

**Real Discount Rates.** Real interest rates based on the economic assumptions from the budget are presented below. These real rates are to be used for discounting real (constant-dollar) flows, as in cost-effectiveness analysis.

**Real Interest Rates on Treasury Notes and Bonds  
of Specified Maturities (in percent)**

<u>3-Year</u>	<u>5-Year</u>	<u>7-Year</u>	<u>10-Year</u>	<u>30-Year</u>
2.1	2.3	2.5	2.7	2.8

Analyses of programs with terms different from those presented above may use a linear interpolation. For example, a four-year project can be evaluated with a rate equal to the average of the three-year and five-year rates. Programs with durations longer than 30 years may use the 30-year interest rate.

**MIDDLE OF YEAR DISCOUNT FACTORS**

YEAR	M-O-Y DISCOUNT FACTOR FOR A 5-6 YEAR PERIOD OF ANALYSIS	M-O-Y DISCOUNT FACTOR FOR A 7-8 YEAR PERIOD OF ANALYSIS	M-O-Y DISCOUNT FACTOR FOR A 9-10 YEAR PERIOD OF ANALYSIS
1	.989	.988	.987
2	.966	.964	.961
3	.945	.940	.936
4	.923	.917	.911
5	.903	.895	.887
6	.882	.873	.864
7	.863	.852	.841
8	.843	.831	.819
9	.824	.811	.797
10	.806	.791	.776